



**DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219**

IN REPLY REFER TO

PSP 730.5.1

April 9, 2009
09-PSP-005(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Alert on Performing Audits of Part(s) of a Proposal

This audit alert is being issued to clarify the audit support to be provided to the contracting officer for an audit of part(s) of a proposal (code 27000) and to address some confusion as to whether we can still perform an audit of part(s) of a proposal. In addition, it addresses other issues that have been raised since the issuance of MRD 08-PAS-026(R), *Audit Guidance on DCAA Audit Services Performed in Support of Integrated Product Teams (IPTs)*, dated August 11, 2008. Specific questions that auditors have raised in supporting IPTs relative to part(s) of a proposal are addressed in the enclosed Frequently Asked Questions. Guidance in relation to auditing subcontract proposals will be addressed in a separate MRD.

Audit of Part(s) of a Proposal

An audit of part(s) of a proposal may be performed provided all of the following three guidelines are met:

1. The contracting officer requests the audit services;
2. The audit covers a “management approved” proposal or part(s) of a proposal, and not a draft proposal; and
3. An audit report is issued reflecting an independent opinion that is not influenced by the contractor or Government officials.

Disagreement on Audit Coverage

In some cases, DCAA is asked to perform an audit of only part(s) of a proposal; however, based on the risk assessment, the auditor may believe that additional part(s) or the entire proposal should be audited. In these cases, the auditor should discuss with the contracting officer the potential for additional audit coverage as a result of significant contractor deficiencies, system problems, or other high risk areas disclosed as part of our overall risk assessment and understanding of the contractor. The FLAs can provide valuable assistance to the FAO in facilitating discussions with the contracting officer. If the contracting officer does not agree with

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our recommendation to expand the audit request to cover additional part(s) of the proposal, the FAO should elevate the issue to regional management for coordination with the command's Director of Contracts or equivalent position. The additional cost areas that the FAO believes should be covered due to the risk assessment should be addressed in the acknowledgement letter along with the action to be taken to elevate the issue within the command. In the interim, the auditor should commence with auditing the parts of the proposal requested by the contracting officer. If the disagreement is not resolved during the audit, the Subject of Audit paragraph in the audit report should confirm the auditor's advice regarding the potential impact of known issues and the reasons given by the contracting officer for not expanding the audit request (CAM 9-108c). If the region is not successful in resolving the areas of disagreement, the regional director should elevate the issue to the Assistant Director, Policy and Plans.

Integrated Product Teams (IPTs)

Contracting officers may decide to have an IPT and still request audit services. While an auditor can no longer participate in IPTs as a team member, the auditor can still audit part(s) or the whole proposal provided all of the conditions are met for audit (contracting officer requested, management approved proposal or part of a proposal, and audit report with independent opinion issued). The auditor should not discuss the results of audit with the contractor or contracting officer until the completion of the management review. Auditors should also keep in mind the guidance at CAM 10-304.10c. to only discuss factual matters and not provide dollar impacts at the exit conference with the contractor. This may result in multiple audit reports issued throughout a given award process, including an audit of the final consolidated management approved proposal.

Concluding Remarks

If FAO personnel have any questions, they should contact regional personnel. Regional personnel with any questions should contact Pricing and Special Projects Division, at (703) 767-3290.

/s/ Terry M. Schneider
/for/ Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosure:

Frequently Asked Questions Part(s) of a Proposal

DISTRIBUTION: C

FREQUENTLY ASKED QUESTIONS PART(S) OF A PROPOSAL

Question 1: Some FAOs are advising the buying commands that they only perform full complete audits based on their risk assessment. Should FAOs perform audits of part(s) of a proposal when requested?

Answer: Yes. Auditors should be responsive to the contracting officer's request for an audit of part(s) of a proposal. When requested by the contracting officer, the auditor should perform an audit of management-approved part(s) of a proposal and issue an audit report reflecting an independent opinion.

Question 2: What constitutes the required management approval of part(s) of a proposal? How can an FAO determine if this approval has been accomplished?

Answer: FAR 15.408, Table 15-2, Section 1.A.(11) identifies that a complete management-approved proposal or part(s) of a proposal submitted to the Government would include the name, title, and signature of the authorized representative of the contractor. The proposal or part(s) of a proposal must be a final management-approved proposal, and not a draft proposal.

Question 3: IPTs usually handle large dollar sole source procurements. FAR 15.406-2 requires certification of cost or pricing data. Should DCAA start an audit of part(s) of a proposal before the contractor certifies its cost or pricing data?

Answer: Yes. The certificate of current cost or pricing data is not required for an audit to be started. The certificate is signed by the contractor when price negotiations are concluded and price agreement is reached, or an earlier date agreed-upon between the parties that is as close as practicable to the date of agreement on price.

Question 4: Is there any Agency requirement that requests for audit of part(s) of a proposal be elevated for regional approval?

Answer: No. FAOs should provide audit assistance if requested by the contracting officer for an audit of management-approved part(s) of a proposal that has been submitted to the contracting officer. However, regions and Field Detachment may have processes in place to monitor FAO compliance with the guidelines for performing audits of part(s) of a proposal.

Question 5: How should the FAO address the request for audit when the auditor's overall risk assessment and understanding of the contractor does not coincide with the level of audit services requested by the PCO? Auditing only a part of the proposal may not disclose significant issues in the other part(s) that is not subject to the audit.

Answer: Upon recognition of the additional area(s) requiring audit coverage, the auditor should discuss with the contracting officer the potential need to expand the audit request to include additional part(s) of a proposal as a result of significant deficiencies, system problems, or other high risk areas. The FLAs can provide valuable assistance to the FAO in facilitating discussions with the contracting officer. If the contracting officer does not agree with the

auditor's recommendation to expand the audit request to cover additional part(s) of the proposal, the FAO should elevate the issue to regional management for coordination with the command's Director of Contracts (or equivalent position). The areas of disagreement should be addressed in the acknowledgement letter along with actions to be taken to elevate the issues within the buying command. In the interim, the auditor should commence with auditing the parts of the proposal requested by the contracting officer.

Question 6: Is there an impairment of auditor independence to perform an audit of part(s) of a proposal because the contracting officer is telling us what part(s) to look at?

Answer: No. Performing an audit of part(s) of a proposal is not an impairment to our independence. When we are requested to audit part(s) of a proposal, the contracting officer provides us with the particular subject matter to audit (i.e., part(s) of the proposal). However, the contracting officer does not influence the audit procedures to be performed in the audit of the parts of the proposal. The auditor independently establishes the scope of audit for the part(s) of the proposal under examination in order to formulate an opinion on the subject matter. Therefore, there would be no impairment to our independence.